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SENSITIVE

SIPDIS

STATE FOR NEA/ELA  
STATE PASS USTR  
TREASURY FOR PARODI/BLEIWEISS/AHERN  
USDOC FOR 4520/ITA/MAC/ONE  
NSC FOR ABRAMS/RAMCHAND/YERGER/MCDERMOTT  
STATE PASS USAID FOR BEVER/LAUDATO/SCOTT

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EAID](#) [PGOV](#) [LE](#)

SUBJECT: LEBANON: UNSOPHISTICATED LEBANESE BANKING SECTOR NOT  
AFFECTED BY FINANCIAL CRISIS

REF: BEIRUT 1496  
BEIRUT 1523  
BEIRUT 1529

SUMMARY

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11. (U) The Lebanese economy so far seems to have emerged unscathed from the international financial crisis. While part of the reason for its immunity to the crisis has been good banking oversight, it is actually the unsophisticated nature of the Lebanese banking sector, with its assets centered on sovereign debt, some private sector loans, and cash deposits, that has protected the economy in the recent turbulent weeks. Consequently, the GOL has not taken any steps to counteract the crisis. Contacts in both business and government view U.S. actions to stem the crisis as positive, though they wonder if USG measures will be enough to avoid a similar series of events in the future. End summary.

BORING BANKS

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12. (U) Lebanon's sovereign debt stands at a staggering 170 percent of GDP, so it is perhaps unsurprising that thirty percent of Lebanese banks' assets consist of government debt. Banks keep another forty percent of their assets in cash or other liquid instruments, because the Lebanese do not keep their money in the banks: the average lifespan of cash deposits in Lebanon is just 45 days. The remaining thirty percent of assets is lent to the private sector.

13. (SBU) In other words, Lebanese banks are what Freddie Baz, Chief Advisor at Audi Bank, Lebanon's largest bank, calls "boring banks." "Only boring banks have been insulated from the crisis," he said. In fact, the boring Lebanese banks are attracting new cash in the current climate of uncertainty: deposits in Lebanon's banking sector are expected to increase \$12 billion in 2008, compared to \$7 billion growth in 2007, which had been considered a banner year, Baz remarked. This inflow of deposits has come largely from Gulf Arabs and the Lebanese diaspora, looking for a quiet place to stash their money in the midst of the turmoil.

EXISTING REGULATION SUFFICIENT  
TO WITHSTAND THE CRISIS

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14. (U) As a result, the GOL has taken no recent action to counteract what has been more or less a non-event thus far in Lebanon, though

there is still concern that issues in the Gulf economies may spill over to Lebanon, given heavy Gulf investment in the country and large numbers of Lebanese expatriates employed there.

15. (SBU) In addition, measures taken by the Central Bank of Lebanon during past international crises, including a prohibition on banks' ownership of derivative products, protected domestic banks from the risks of structured products. And as Alain Bifani, Director General at the Ministry of Finance, remarked sarcastically, for years Lebanon has been implementing many of the measures now being adopted by the U.S. and Europe: over the past thirty years, he noted, the GOL has nationalized a variety of ailing firms and granted facilities to encourage bank mergers.

U.S. RESPONSE POSITIVE

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16. (SBU) Embassy contacts view the U.S. response to the crisis as positive, particularly since the other major financial powers also responded aggressively, calming markets worldwide. Many banking contacts noted that while the response was not what liberal economists might see as ideal, it was crucial to restore confidence in the financial system. Nonetheless, as Makram Sader, Secretary-General of the Association of Banks in Lebanon, remarked, the USG should undertake better regulation to address the root causes of the crisis.

COMMENT

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17. (SBU) While the Central Bank of Lebanon did enact prudent regulation in recent years that has helped Lebanon weather the

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current crisis, the irony is that it is actually the country's relatively primitive banking sector, which does minimal investment lending and little investment banking at all, that has "protected" Lebanon. While everyone is celebrating the strength of the sector in the wake of global weakness, the fact is that the same system that limits losses now also limits gains in the good times, and also does very little to promote investment in a country that sorely needs it. End comment.

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